Obama, Healthcare Industry Promise $2 Trillion Savings

Obama stated in advance that the groups "are voluntarily coming together to make an unprecedented commitment."

According to a statement posted on The White House website:

> The coalition has agreed to reduce the annual health care spending growth rate by 1.5 percentage points for the next 10 years, a change that could result in savings of roughly $2,500 for American families. Some of the changes the coalition is working on, explained fully in the fact sheet, include:

• Improving Care after Hospitalizations and Reduce Hospital Readmission Rates.

• Reducing Medicare Overpayments to Private Insurers through Competitive Payments.

• Reducing Drug Prices.

• Improving Medicare and Medicaid Payment Accuracy.

• Expanding the Hospital Quality Improvement Program.

The White House statement noted that as the president closed his remarks, he made clear that this was just the beginning, and certainly no stopgap measure: "So the steps that are being announced today are significant. But the only way these steps will have an enduring impact is if they are taken not in isolation, but as part of a broader effort to reform our entire health care system."

In theory, the reduced healthcare costs created by the industry's price reductions would enable the government, under a new plan to be proposed by the president and congressional Democrats, to guarantee health insurance coverage for most Americans. Reuters news reported that Obama's proposal would establish a new government health insurance plan to compete with private insurers. The administration claims that would help cut costs by introducing competition and covering the uninsured. However, Republicans and insurers oppose such a government plan, arguing that it would undermine the private healthcare market.

As to why healthcare executives who previously were opposed to federal involvement in healthcare have suddenly turned cooperative, a writer in the British *Guardian* newspaper for May 11 theorized:

> The industry groups are trying to get on the administration bandwagon for expanded coverage now in the hope they can steer Congress away from legislation that would restrict their profitability in future years.

Insurers, for example, want to avoid the creation of a government health plan that would directly compete with them to enroll middle-class workers and their families. Drug makers worry that in the future, new medications might have to pass a cost-benefit test before they can win approval. And hospitals and doctors are concerned the government could dictate what they get paid to care for any patient, not only the elderly and the poor under existing government healthcare programs.

Obama has courted industry and provider groups, inviting their representatives to the White House. There's a sense among some of the groups that now may be the best time to act before public opinion, fuelled by anger over costs, turns against them.

It's unclear whether the proposed savings will prove decisive in pushing a healthcare overhaul through Congress. There's no detail on how the savings pledge would be enforced. And, critically, the promised savings in private healthcare costs would accrue to society as a whole, not just the federal government. That's a crucial distinction because specific federal savings are needed to help pay for the cost of expanding coverage.

Though the above theory does have merit, its most singular weakness is its supposition that major healthcare providers and insurers are, of necessity, natural opponents of a national health insurance plan. Both this article and the Reuters report statement that insurers are opposed to a government plan because "it would undermine the private healthcare market" underestimate the ability of the largest and best-connected corporations to form — not public-private partnerships — but public-private virtual *monopolies*.

Isn't it odd that the healthcare providers and vendors who just stated a willingness to cut their costs by an aggregate amount of $2 trillion dollars to "help out the government" were unwilling to do so to help out their customers before this? Is their sudden change of heart motivated by altuism, or are they merely investing in greater returns down the road?

Let us consider a brief example of how a large pharmaceutical company benefited from its relationship with government:

One of the participants in the May 11 White House event was Richard Clark, chairman, president & CEO of Merck & Co., Inc. In a February 2007 article, this writer noted that Texas Governor Rick Perry had issued an executive order requiring that schoolgirls as young as 11 get vaccinated with a drug called Gardasil, which protects against four of the 30 strains of the human papillomavirus, or HPV, that causes cervical cancer.

The order was, of course, controversial, even beyond the fact that it was an infringement on parental control of children's medical care. The reason was that Gardasil's manufacturer, Merck & Company pharmaceuticals, had been spending money to lobby for laws and orders similar to Perry's throughout the nation. According to the Associated Press, "One of the drug company's three lobbyists in Texas is Mike Toomey, Perry's former chief of staff." Additionally, AP reported, "The governor also received $6,000 from Merck's political action committee during his re-election campaign."

Now this does not imply that Merck & Co. has necessarily staked out any special relationship with the Obama administration related to any future government healthcare program. But the company's CEO certainly has a talent for being in the right place at the right time, and rubbing elbows with the right people.

For many years, the politically unsophisticated have held the view that there are two opposing forces wrestling for control of our nation's economic resources: the working class, whose interests are supposedly best represented by the Democratic Party; and "fat cats" and corporate types who supposedly operate through the Republican Party to monopolize those resources and keep them from the poor and downtrodden.

Such a view is a vast oversimplification, however, and healthcare is no different from any other economic resource. Rather than buying into the Obama administration's healthcare plan reluctantly, and assuaging the Democrats by paying tribute and cutting the best deal from themselves that they can, the reality of the matter is apt to be something quite different.

When the Obama administration starts doling out contracts under its news healthcare plan for healthcare providers and administrators, it is likely that those who supported the administration early on are apt to be given seats at the table, while the holdouts and those too small to get into the game are left out in the cold.

As free-market economists have insisted for years: only through government intervention is monopoly possible. In a true free market, competition keeps goods and services flowing to consumers at the best possible price.

And healthcare is no exception to this rule.